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1967

GILCHRIST VENDING LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS *for the year ended June 30, 1967*



GILCHRIST VENDING LIMITED

HEAD OFFICE:

Toronto, Ontario

DIRECTORS:

E. J. Gauvreau, *Toronto*
M. A. Cardinal, *Montreal*
T. E. Martin, *Vancouver*
J. D. Patterson, *Kansas City*
G. I. Carbaugh, *Kansas City*
G. W. Ballantyne, *Toronto*
A. D. Givens, *Toronto*

OFFICERS:

E. J. Gauvreau, *Chairman & President*
M. A. Cardinal, *Executive Vice-President*
J. R. Walker, *Vice-President*
T. E. Martin, *Vice-President*
B. W. Shields, *Secretary*
B. L. Pender, *Treasurer*

REGISTRAR AND TRANSFER AGENT:

Eastern & Chartered Trust Company, *Toronto*

AUDITORS:

Johnson, Stewart, Bourne, Brown & Co.

SOLICITORS:

Fasken and Calvin

OFFICES:

Montreal
Toronto
Winnipeg
Saskatoon
Edmonton
Vancouver

AR35

GILCHRIST VENDING LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the shareholders of Gilchrist Vending Limited (hereinafter called "Gilchrist") will be held at the Sutton Place Hotel, 965 Bay Street, Toronto, Ontario, on Thursday, the 14th day of December, 1967, at the hour of 1:00 o'clock in the afternoon (Toronto time) for the following purposes:

1. To receive and consider the consolidated balance sheet of the Company and Subsidiaries as at June 30, 1967, and the consolidated statements of income, retained earnings and source and application of funds for the year ended on the said date, together with the reports of the directors and auditors thereon.

2. To elect directors.

3. To appoint auditors.

4. To transact such further and other business as may properly come before the meeting or any adjournment or adjournments thereof.

DATED the 30th day of November, 1967.

By Order of the Board

BRIAN W. SHIELDS,
Secretary.

NOTE: If you are unable to be present personally at the meeting and are the holder of shares of the Company, kindly sign and return the enclosed instrument of proxy in the envelope enclosed for the purpose.

GILCHRIST VENDING LIMITED

INFORMATION CIRCULAR

This Information Circular is furnished in connection with the solicitation of proxies for use at the Annual Meeting of the Shareholders of Gilchrist Vending Limited ("Gilchrist") to be held on Thursday, December 14, 1967, at 1:00 o'clock in the afternoon for the purposes set forth in the accompanying Notice of Annual Meeting.

The enclosed proxy is solicited by the management of Gilchrist. The solicitation will be made only by mail. The cost of solicitation will be borne by Gilchrist. A shareholder giving a proxy has power to revoke it at any time before it is voted. Two persons present in person and each entitled to vote thereat constitute a quorum for the transaction of business at any meeting of shareholders.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Gilchrist has outstanding 215,500 shares without par value. Each share is entitled to one vote at the Annual Meeting. All proxies must be lodged with the Secretary at or prior to the commencement of the meeting. Only shareholders of record at the close of business on November 29, 1967, will be entitled to receive notice of the Annual Meeting.

To the knowledge of the directors and senior officers of Gilchrist, the following are the only persons or companies who beneficially own, directly or indirectly, more than ten per cent of the shares of Gilchrist.

Name	Number of Shares beneficially owned as at Nov. 21, 1967	Approximate percentage of outstanding shares
The Vendo Company, Kansas City, Missouri	161,301	74.8%

ELECTION OF DIRECTORS

Seven directors are to be elected at the meeting to hold office until the next Annual Meeting or until their successors are duly elected. The shares represented by the enclosed form of proxy will be voted by Messrs. Gauvreau, Cardinal and Martin in favour of the election of the seven nominees hereafter listed, all of whom are presently serving as directors of Gilchrist. Set out below are the names and principal occupations of the nominees. Unless otherwise indicated such occupation has continued for more than five years.

Name and principal occupation of nominees during the past 5 years	Became a Director	Shares beneficially owned as at Nov. 23, 1967 — (Note 1*)
EMILE JOSEPH GAUVREAU, has been President of Gilchrist.	1959	1
MAURICE A. CARDINAL, has been Executive Vice-President since his appointment at the last annual meeting and for the four years prior was Vice-President.	1962	nil*

Name and principal occupation of nominees during the past 5 years	Became a Director	Shares beneficially owned as at Nov. 23, 1967 — (Note 1*)
THOMAS EDWARD MARTIN, has been Vice-President since his appointment at the last annual meeting. For the four prior years, he was Manager of the Western Canada Branches of Gilchrist.	1966	nil*
ALEXANDER DESMOND THOMAS GIVENS, has been solicitor, Fasken & Calvin, Toronto since 1963, prior to which he was Tax Manager, Philips group of companies in Canada.	1967	nil*
GLENN IRVIN CARBAUGH, has been Corporate Secretary and legal counsel, The Vendo Company, Kansas City, Missouri.	1967	nil*
J. DOYLE PATTERSON, has been Vice-President and Treasurer, The Vendo Company since 1967, prior to which he was Vice-President and Assistant Treasurer. Prior to 1964 he was President of Farm Belt Fertilizer & Chemical Co., Kansas City, Missouri.	1967	nil*
GERALD WASHINGTON BALLANTYNE, has been Vice-President and General Manager of Ven Par Vending Equipment Sales Ltd. since February 1967 and prior to that was Plant Superintendent of The Vendo Company, Aurora, Illinois. Prior to January 1963 he was Engineering Manager of The Vendo Company, Kansas City, Missouri.	1967	nil*

NOTE 1* The information as to shares beneficially owned by each nominee, not being within the knowledge of Gilchrist, has been furnished by such nominee. Each director noted as owning nil shares beneficially holds one qualifying share in trust for The Vendo Company.

Although the management does not contemplate that any of the nominees named will be unavailable for election or will decline to serve if elected, in the event of any vacancies among the nominees occasioned by death or other unexpected occurrence, the shares represented by the enclosed form of proxy will be voted by Messrs. Gauvreau, Cardinal and Martin in favour of the remaining nominees and for such other substitute nominees as the Board of Directors of Gilchrist may designate.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The following information is given with respect to the remuneration of directors and senior officers during the last financial year of Gilchrist ended June 30, 1967 and certain future remuneration.

(a) The aggregate direct remuneration paid or payable by Gilchrist or subsidiaries whose financial statements are consolidated, to its directors and senior officers as a group during such financial year is $100,006. There are no subsidiaries whose financial statements are not consolidated with those of Gilchrist.

(b) There are no pension plans providing normal retirement benefits, and no other plans, contracts, authorizations or arrangements maintained or contributed to by Gilchrist or any of its subsidiaries for the benefit, either directly or indirectly of any directors or senior officers of Gilchrist, other than the following:

(i) On September 12, 1967 Gilchrist entered into a five-year employment contract with the President and a three-year employment contract with each of two other senior officers who are directors. These contracts provide for annual minimum base salaries aggregating $65,000, with provision for incentive payments in addition thereto commencing July 1, 1967 ranging from a minimum of 3% to 50% of base salaries based upon a formula in respect of sales and gross profit levels realized by Gilchrist. After July 1, 1968 and up to to July 1, 1970, the minimum payments will be 20% of base salaries. This 20% minimum will be paid irrespective of the said formula, but any additional incentive payments up to 50% of base salaries will continue to be based upon the formula.

(ii) An incentive bonus plan provides that the President shall receive 10% of after-tax profits of Gilchrist in excess of $175,000 in each financial year. No payments under this plan have been made during the last completed financial year of Gilchrist and it is planned to terminate it in the near future.

(c) Since the commencement of Gilchrist's last completed financial year there have been no stock options granted to directors or senior officers of Gilchrist.

During Gilchrist's last completed financial year, outstanding options to purchase 1,300 shares in the capital of Gilchrist were exercised; each of the said shares was purchased at prices ranging from $3.50 to $4.00 per share. Since June 30, 1967, all of the remaining outstanding options to purchase 10,000 shares in the capital of Gilchrist were exercised pursuant to an acceleration of the exercise dates authorized by the directors of Gilchrist; each of the said 10,000 shares was purchased during the period October 1 to October 17, 1967, at prices ranging from $4.00 to $4.50 per share purchased.

(d) There are no directors, nominees for directors, senior officers, or associates of such directors, senior officers, or proposed nominees, who have been indebted to Gilchrist or its subsidiaries at any time since the beginning of the last completed financial year of Gilchrist.

INTERESTS OF MANAGEMENT AND OTHERS SINCE JULY 1, 1966 IN MATERIAL TRANSACTIONS OF THE CORPORATION

The following are all material transactions since July 1, 1966, between Gilchrist and (i) directors and senior officers of Gilchrist; (ii) any proposed nominee for election as a director of Gilchrist; (iii) any person or company beneficially owning, directly or indirectly more than 10% of the shares of Gilchrist and (iv) any associate or affiliate of the persons and companies named in (i), (ii), and (iii) above:

(a) On June 26, 1967, Gilchrist sold to Mr. E. J. Gauvreau 1,000 common shares in the capital of Selectomatic Music Systems Limited, being all of the issued and outstanding common shares in that company, for an aggregate purchase price of $37,000. On June 29, 1967, the said Mr. E. J. Gauvreau caused

Selectomatic Music Systems Limited to purchase for cancellation 230 5% non-cumulative, non-voting preference shares in the capital of Selectomatic Music Systems Limited owned by Gilchrist at the par value thereof, namely $100 per preference share. Selectomatic Music Systems Limited had previously been a wholly-owned subsidiary of Gilchrist.

Mr. E. J. Gauvreau is a director and President of Gilchrist.

(b) By an agreement dated September 12, 1967, between The Vendo Company and N. Marshall Seeburg & Sons, E. J. Gauvreau, M. A. Cardinal and T. E. Martin, The Vendo Company of Kansas City, Missouri, acquired, on October 17, 1967, 161,301 shares being 74.8% of the outstanding shares in the capital of Gilchrist for an aggregate cash consideration of $883,445.58, plus a sum equal to 74.8% of any amount which Gilchrist may realize from its participation as a 50% shareholder in A.G.E. Vending Services Inc.

Messrs. G. I. Carbaugh, J. D. Patterson and G. W. Ballantyne, all nominees for the board of directors, are senior officers of The Vendo Company which owns 74.8% of the outstanding shares of Gilchrist.

APPOINTMENT OF AUDITORS

The shareholders will be asked to vote for the appointment as auditors for Gilchrist of Messrs. Johnson, Stewart, Bourne, Brown & Co. who have been auditors of Gilchrist for many years. The shares represented by the enclosed form of proxy will be voted by Messrs. Gauvreau, Cardinal and Martin in favour of the appointment of Messrs. Johnson, Stewart, Bourne, Brown & Co. as auditors of Gilchrist.

MANAGEMENT CONTRACTS

There are at present no management functions of Gilchrist or its subsidiaries which are to any substantial degree performed by a person or company other than the directors or senior officers of Gilchrist or its subsidiaries.

MANNER PROXIES WILL BE VOTED

The shares represented by the enclosed form of proxy (if the same is executed in favour of Messrs. Gauvreau, Cardinal and Martin, the management nominees, and is returned prior to the meeting) will be voted by such nominees in accordance with the statements made in this Information Circular. It is not the intention of management to bring any matter before the meeting except those matters referred to in the Notice calling the Annual Meeting. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if any other matters should properly come before the meeting, shares represented by the enclosed form of proxy will be voted upon such other matters in accordance with the best judgment of such management nominees.

Each shareholder has the right to designate as his proxy a person other than the management nominees to attend and act for such shareholder at the Annual Meeting. Any shareholder desiring to exercise such right may do so by striking out the names of the management nominees named in the enclosed form of proxy and inserting in the space provided the name of the person who such shareholder desires to appoint as proxy. Proxies given in favour of a person other than the management nominees should be forwarded to such person and should not be forwarded to Gilchrist.

By Order of the Board of Directors,

BRIAN W. SHIELDS

Secretary

Dated November 30, 1967.



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GILCHRIST VENDING LIMITED



A MESSAGE TO OUR SHAREHOLDERS

Our fiscal year ending June 30, 1967 was one of continued development for your company, although reductions occurred in volume and profits.

Our sales volume was $3,689,711 compared to $3,812,139 for fiscal 1966, a reduction of 3.2%. Your perusal of our highlights for the past 4 years will indicate a significant trend in the sales volumes obtained and, with the exception of fiscal 1967, a steady increase was enjoyed.

Earnings per share reduced substantially from .82 cents to .47 cents and the reduction is attributable to a decline in margin rates of approximately 4.5%. This is due to increases in costs which we found necessary to absorb rather than an overall selling price increase to our customers. A general selling price increase was prohibitive due to competitor's prices. A portion of the margin reductions, approximately $55,000, is attributable to disposal of equipment on location, which was in excess for 1966 compared to 1967.

Our activities during fiscal 1967 included the placing of 240 vending machines at the 1967 World's Fair in Montreal in association with Allfood Services Limited and the results of this undertaking will be announced early in 1968.

Another significant event which occurred in 1967 was the acquisition by the Vendo Company of Kansas City, Missouri of approximately 74.5% of our common stock.

In addition to the above development we have improved our service to our customers in Saskatchewan by opening an office in Saskatoon. This office will give your company exposure to another market area which should prove beneficial.

I would like to acknowledge the support given by our employees with my sincere appreciation.

Your directors recognize the confidence extended by our shareholders and anticipate we will continue to warrant this confidence.

President

GILCHRIST VENDING LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1967

(With comparative figures for 1966)

ASSETS

	1967	1966
CURRENT		
Cash	$ 54,903	$ 50,631
Accounts receivable, less allowance for doubtful accounts	1,121,344	739,661
Inventories, valued at the lower of cost or market	873,617	974,135
Prepaid expenses and advances	13,270	19,084
	$2,063,134	$1,783,511
SPECIAL REFUNDABLE TAX	$ 3,254	$ 1,218
INVESTMENT — At cost, being a one-half interest in A.G.E. Vending Services Inc.	$ 500	$ —
FIXED — At cost		
Land	$ 24,220	$ 24,220
Buildings	140,783	136,361
Equipment on location	311,152	316,084
Plant equipment and furniture	91,809	132,910
Automobiles and trucks	57,520	38,739
	$ 625,484	$ 648,314
Less — Accumulated depreciation	226,445	276,434
	$ 399,039	$ 371,880
OTHER		
Leasehold improvements, at cost less amortization	$ 4,995	$ 5,913
	$2,470,922	$2,162,522

JOHNSON, STEWART, BOURNE, BROWN & CO., *Chartered Accountants*

To the Shareholders of

GILCHRIST VENDING LIMITED AND SUBSIDIARIES:

We have examined the consolidated balance sheet of Gilchrist Vending Limited and Subsidiaries as at June 30, 1967 and the consolidated statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

CURRENT	1967	1966
Bank Loan — secured	$ 300,000	$ 195,000
Accounts payable and accrued liabilities	916,722	689,982
Current portion of long-term debt	9,833	6,833
Dividend payable	20,550	20,420
Corporation income taxes payable (Note 1)	24,761	84,724
	$1,271,866	$ 996,959
LONG-TERM DEBT (Note 2)	$ 83,267	$ 76,420
Less — Amounts due within one year, included in current liabilities	9,833	6,833
	$ 73,434	$ 69,587
TOTAL LIABILITIES	$1,345,300	$1,066,546

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 3)

Authorized

500,000 Common shares, without par value

Issued and Fully Paid

205,500 Common shares (1966 — 204,200 shares)	$ 671,752	$ 667,202
RETAINED EARNINGS	453,870	428,774
	$1,125,622	$1,095,976
	$2,470,922	$2,162,522

APPROVED ON BEHALF OF THE BOARD

E. J. GAUVREAU, *Director*

M. A. CARDINAL, *Director*

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and retained earnings, when read in conjunction with the notes thereto, present fairly the financial position of the Company as at June 30, 1967 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the source and application of funds for the year ended June 30, 1967.

Toronto, Ontario.
September 14, 1967.

JOHNSON, STEWART, BOURNE, BROWN & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

for the year ended June 30, 1967

(With comparative figures for 1966)

	1967	1966
GROSS REVENUE	$3,689,711	$3,812,139
COST OF GOODS SOLD	2,748,700	2,691,685
GROSS PROFIT (including profit on disposal of equipment on location of $14,974; 1966 — $69,643)	$ 941,011	$1,120,454
EXPENSES (see note below)	825,934	864,719
	$ 115,077	$ 255,735
Finance participations received	20,528	—
Net gain on disposal of fixed assets (other than equipment on location)	4,068	—
Profit on disposal of subsidiary	19,238	—
INCOME BEFORE PROVISION FOR INCOME TAXES	$ 158,911	$ 255,735
Provision for income taxes (Note 1)	62,000	89,000
NET INCOME FOR THE YEAR	$ 96,911	$ 166,735
EXPENSES INCLUDE THE FOLLOWING:		
Depreciation and amortization	$ 55,450	$ 62,298
Interest on long-term debt	6,752	6,021
Management salaries paid to directors as officers of the Company	74,600	64,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended June 30, 1967

(With comparative figures for 1966)

	1967	1966
BALANCE — BEGINNING OF YEAR	$428,774	$299,057
ADD — Net income for the year	96,911	166,735
	$525,685	$465,792
DEDUCT — Organization and financing expense written off	—	16,598
Dividends	71,815	20,420
	$ 71,815	$ 37,018
BALANCE — END OF YEAR	$453,870	$428,774

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CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS — *for the year ended June 30, 1967*

(With comparative figures for 1966)

	1967	1966
SOURCE OF FUNDS		
Operations for the year		
Net Income	$ 96,911	$166,735
NON-CASH EXPENSES		
Depreciation and amortization	55,450	62,298
Amortization of deferred finance charges	—	2,815
	$152,361	$231,848
Issue of common stock	4,550	11,250
Net proceeds from disposals of equipment on location, less profit included in net income	40,266	198,889
Increase in long-term debt	13,626	—
	$210,803	$441,987
APPLICATION OF FUNDS		
Special refundable tax	$ 2,036	$ 1,218
Purchase of fixed assets	121,957	37,029
Reduction of long-term debt	9,779	92,148
Dividends	71,815	20,420
Investment in A.G.E. Vending Services Inc.	500	—
	$206,087	$150,815
INCREASE IN WORKING CAPITAL	$ 4,716	$291,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended June 30, 1967

NOTE 1: Corporation Income Taxes

It is the Company's intention to claim for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts during the year, resulting in a decrease in the provision for income taxes of approximately $13,000. The net book value of depreciable assets at June 30, 1967 is less than the undepreciated capital cost for tax purposes.

NOTE 2: Long-Term Debt

Mortgages

First mortgage, Vancouver property, 8%, due February 1, 1970 repayable in monthly instalments of $160 including interest	$ 3,007
First mortgage, Toronto property, 8%, due June 30, 1972 repayable in monthly instalments of $1,000 including interest	75,000
Second mortgage, Vancouver property, 7%, repayable in monthly instalments of $175 including interest	5,260
	$83,267

There are no past due instalments on the above long-term debts.

NOTE 3: Capital Stock

The Company has reserved 20,000 of its unissued common shares for a Key Employees' Stock Option Plan. Since commencement of the plan, December 20, 1963, options to purchase 15,750 shares have been granted to certain officers and employees exercisable as follows:

Up to December 31, 1964	20%	of the option at $2.50 per share
Up to December 31, 1965	40%	of the option at $3.00 per share
Up to December 31, 1966	60%	of the option at $3.50 per share
Up to December 31, 1967	80%	of the option at $4.00 per share
Up to December 31, 1968	100%	of the option at $4.50 per share

Pursuant to the Key Employees' Stock Option Plan, 5,500 common shares have been issued of which 1,300 were issued during the year, for a cash consideration of $4,550.

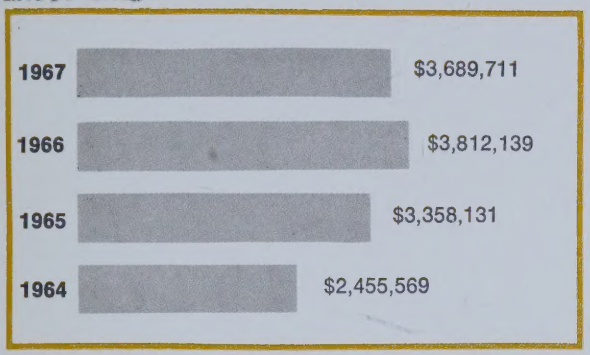
NOTE 4: Contingent Liabilities

The Company is contingently liable on customers' notes under discount amounting to approximately $1,815,000 against which the finance companies are holding back approximately $82,000 in finance participations.

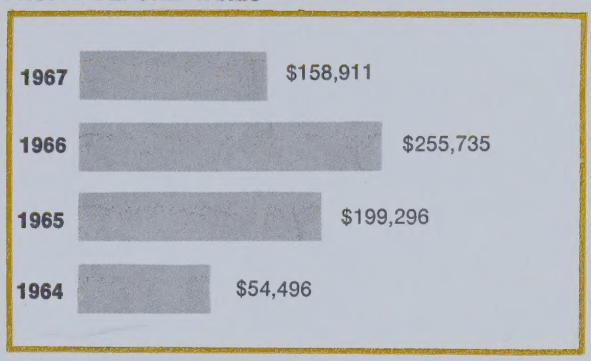
GVL HIGHLIGHTS

COMPARATIVE SUMMARY FOR FOUR YEARS

GROSS SALES

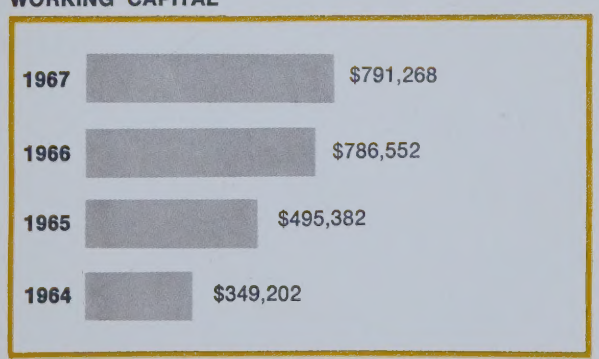


PROFIT BEFORE TAXES

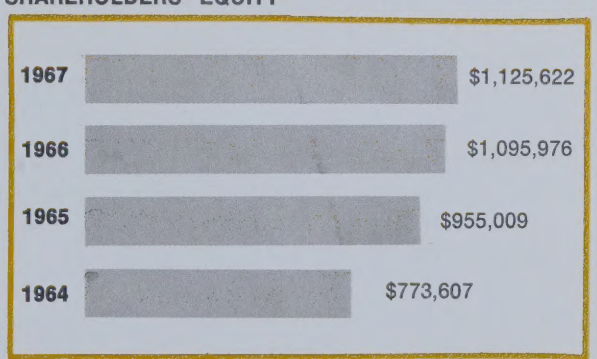


	YEARS ENDED JUNE 30			
	1967	1966	1965	1964
INCOME				
Gross revenue	$3,689,711	$3,812,139	$3,358,131	$2,455,569
Income before provision for taxes	158,911	255,735	199,296	54,496
Provision for taxes on income	62,000	89,000	8,200	3,427
Net income	96,911	166,735	191,096	51,069
Percent of net income to gross revenue	2.6%	4.4%	5.7%	2.1%
Earnings per share	.47	.82	.95	.26
BALANCE SHEET ITEMS				
Working capital (current assets less current liabilities)	$ 791,268	$ 786,552	$ 495,382	$ 349,202
Current ratio	1.6	1.8	1.5	1.5
Long-term debt	73,434	69,587	161,736	220,894
Shareholders' equity	1,125,622	1,095,976	955,009	773,607
Number of shares outstanding	205,500	204,200	200,450	200,000

WORKING CAPITAL



SHAREHOLDERS' EQUITY




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GILCHRIST VENDING LIMITED